

# Idaho Economic Forecast

DIRK KEMPTHORNE, Governor

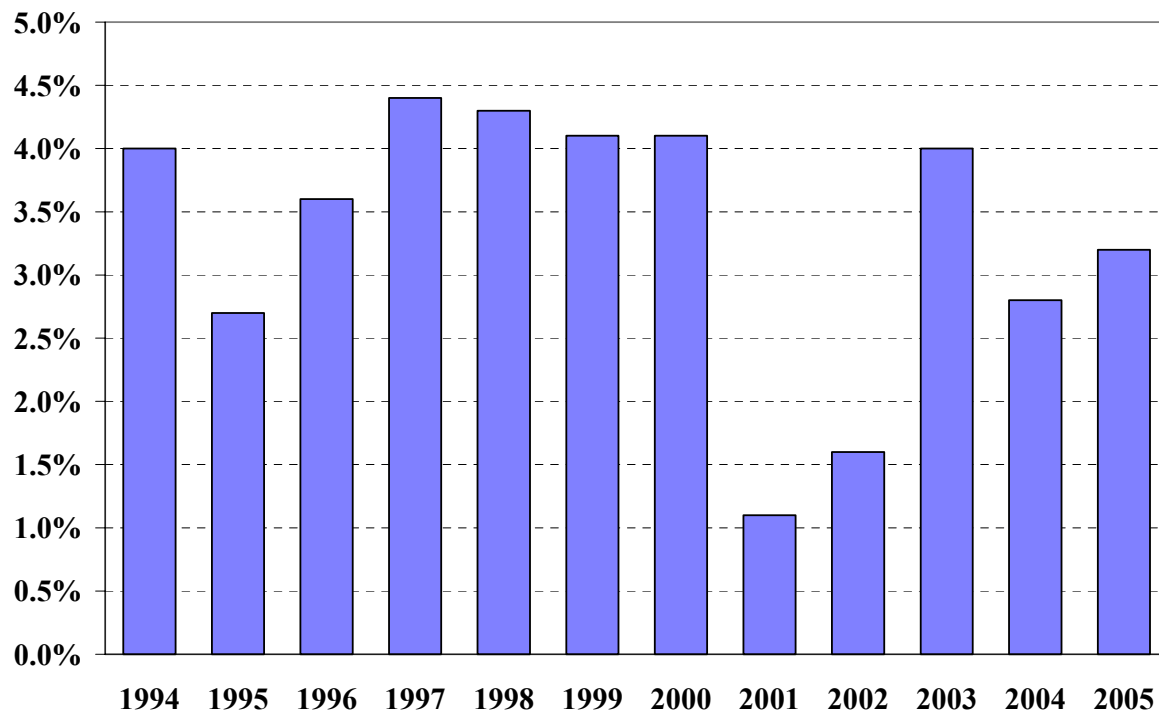
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- Forecast 2001-2005
- Economic Impacts of the Terrorists' Attacks on America
- Alternative Forecasts

## U.S. Real GDP Growth



Source: DRI\*WEFA

**IDAHO  
ECONOMIC  
FORECAST  
2001 - 2005**

State of Idaho  
DIRK KEMPTHORNE  
Governor

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## PREFACE

Idaho's economy continues to grow and evolve as it enters the 21<sup>st</sup> Century. The 1980s was a decade of stop-and-start economic performance. However, it also ushered in one of the longest expansions in the state's history. Since 1987, nonfarm employment has expanded in every year and consistently placed Idaho among the top ten fastest growing states in the nation. The 1990s saw a flood of new residents move into the state, causing the population to expand by an astounding 29% from 1990 to 2000. Over this period Idaho personal income nearly doubled. Much of the current expansion results from ongoing structural changes in Idaho's economy.

One of the biggest changes is the rise of the state's high-technology sector. Virtually nonexistent in the 1970s, this sector achieved critical mass in the 1990s to become the state's largest manufacturing employer. The growth of industry giants, such as Micron Technology and Hewlett-Packard, as well as the emergence and expansion of smaller companies, pushed payrolls above even the most optimistic forecasts made in the 1980s. The state's trade sector has also been going through a transformation. The last decade witnessed an influx of national "big box" merchandisers. During this same time, Idaho merchants successfully reached beyond the state's borders. Several regional shopping centers were established that serve locals, as well as attract shoppers from other states and Canada. Visitors fueled the surge in tourism that also benefited trade. Like its national counterpart, the service sector accounts for most of the nonfarm jobs in Idaho. Tourism has also been a boon to the service industry. While traditional factors, such as increasing discretionary income, continue to fuel the demand for services, other influences have emerged. For example, the use of temporary employees in manufacturing has bolstered business services employment. Idaho's outstanding work force has been a major factor in attracting call centers, back office operations, and credit companies.

While many changes are taking place today, traditional resource industries still play a major role in Idaho's economy. Indeed, the state's mining, agriculture, and timber sectors all experienced lulls in the late 1990s. While displaying more resilience to downturns than in the past, these industries are not totally immune from business-cycle effects. This continuing dependence on natural resources will bring a host of challenges to Idaho. These challenges include competition among agriculture, fisheries, and expanding population, for water and energy; the environmental impacts of the economically important mining, timber, agricultural, and tourism industries; and the many other pressures of an expanding population on the state's natural and fiscal resources.

Other factors that are external to the state's economy will present challenges this decade to public and private decision makers. Public policy decisions made in Washington, D.C. affect resource industry and federal installations such as the Idaho National Engineering and Environmental Laboratory and the Mountain Home Air Force Base. Finding balanced and acceptable solutions to endangered and threatened species issues and timber supply issues are of major economic significance.

In order to deal effectively with these challenges, public and private decisions need to be made with a thorough understanding of the structure of the state's economy. It is to this end that the *Idaho Economic Forecast* is directed.

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## TABLE OF CONTENTS

Preface.....	iii
Introduction.....	2
Executive Summary.....	5
Idaho and U.S. Forecast Summary Tables.....	6
Forecast Description:	
National.....	8
Idaho .....	14
Forecasts Comparison.....	20
Alternative Forecasts .....	22
Feature Article	
Economic Impacts of the Terrorists’ Attacks on America .....	25
Forecast Detail .....	31
Annual Forecast .....	32
Quarterly Forecast .....	46
Appendix.....	61
DRI*WEFA U.S. Macroeconomic Model.....	62
Idaho Economic Model.....	64
Equations .....	66
Endogenous Variables .....	70
Exogenous Variables .....	72

## INTRODUCTION

The national forecast presented in this publication is the September 2001 DRI\*WEFA shock forecast of the U.S. economy. The July 2001 *Idaho Economic Forecast* is based on the June 2001 DRI\*WEFA baseline national forecast.

The cover chart shows the recent historical and short-term projected growth rates for U.S. real GDP. The most notable feature of this graph is that real GDP, after growing by at least 4.0% annually from 1997 to 2000, will slow significantly to 1.1% this year. The year 2001's marginal growth reflects the economy being mired in a recession during the second half of that year. Some of the effects of that slowing will spill over into 2002, limiting that year's growth to 1.6%. Real GDP is forecast to rise 4.0% in 2003, 2.8% in 2004, and 3.2% in 2005.

## FEATURE

The economic impacts of the terrorists' attacks on America are only now being tallied. In order to do this it was essential to isolate changes that were due solely to the attacks on America. This is important because even before the attacks occurred, the U.S. economy was clearly slowing. This *Forecast's* feature article reviews DRI\*WEFA's initial assessment of the attacks on the U.S. economy and analyses its impact on Idaho's economy. The Division of Financial Management's Derek Santos wrote this article.

## THE FORECAST

Alternative assumptions concerning future movements of key economic variables can lead to major variations in national and/or regional outlooks. DRI\*WEFA examines the effects of different economic scenarios, including the potential impacts of international recessions, higher inflation, and future Federal Reserve Board decisions. Alternative Idaho economic forecasts were developed under different policy and growth scenarios at the national level. These forecasts are included in this report.

Historical and forecast data for Idaho and the U.S. are presented in the tables in the middle section of this report. Detail is provided for every year from 1986 to 2005 and for every quarter from 1999 through 2004. The solution of the Idaho Economic Model for this forecast begins with the second quarter of 2001.

Descriptions of the DRI\*WEFA U.S. Macroeconomic Model and the Idaho Economic Model are provided in the Appendix. Equations of the Idaho Economic Model and variable definitions are listed in the last pages of this publication.

## CHANGES

DFM's standard practice is to use DRI\*WEFA's baseline U.S. economic forecast to drive the Idaho Economic Model (IEM). We have abandoned this tradition in preparing the October 2001 because of the earth shattering events of September 11, 2001. DRI\*WEFA's baseline projection was prepared before September 11, 2001 and, therefore, did not include the impacts of the terrorists' attacks. However, they have prepared a forecast since then that attempts to quantify these impacts. We believe this is a better representation of the state of the economy and have used it to drive the IEM instead of the baseline forecast. After this *Forecast*, all U.S. baseline forecasts will include the impacts of the attacks, and we will once again return to using them to drive the Idaho forecast.

The employment data that appear in this publication are based on monthly estimates provided by the Idaho Department of Labor. It has finalized employment numbers for the first three months of this year and provided preliminary estimates for this year's second three months. All of these data have been seasonally adjusted and converted into quarterly estimates by the Division of Financial Management (DFM).

These current data show that Idaho nonfarm employment was stronger (3,789) in the first quarter of this year than had been previously forecasted. We believe some of this increase reflects unusual seasonal employment patterns in some sectors. This being the case, there is a good chance some of this advantage will disappear in the future. This helps explain why Idaho nonfarm employment is just 178 stronger in the second quarter of this year compared to the previous forecast. Time (and more data) will determine if this assumption is correct.

The tables in this forecast include the U.S. Department of Commerce's Bureau of Economic Analysis (BEA) estimates of Idaho quarterly personal income through the first quarter of 2001. In addition to the new income estimates, the Idaho quarterly income estimates for each quarter of 2000 were revised. The BEA will release its next round of Idaho personal income estimates in late October 2001.

The *Idaho Economic Forecast* is available on the Internet at [http://www.state.id.us/dfm/econ\\_pub.html](http://www.state.id.us/dfm/econ_pub.html). Readers with any questions should contact Derek Santos at (208) 334-3900 or at [dsantos@dfm.state.id.us](mailto:dsantos@dfm.state.id.us).

## SUBSCRIPTIONS

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